FISCAL NOTE

HB 45 - SB 45

FIRST EXTRAORDINARY SESSION

April 9, 1999

SUMMARY OF BILL: Reduces the Hall income tax from 6% to 3%, and imposes a 3% tax on federal adjusted gross income in excess of $60,000 per individual. The bill would also authorize a standard personal exemption of an amount equal to the federal personal exemption per individual. Requires a couple to file their state income tax return, jointly or separately, in the same manner as they file their federal income tax return. An individual who could reasonably expect to have gross income from sources other than wages for the individual's taxable year would be required to declare an estimate of the amount of state income tax such individual anticipates owing for such income and to pay such amount in quarterly payments. Bill would provide a taxpayer credit for income taxes accrued to another state. The tax credit derived from income tax accrued to another state would not be allowed to exceed the income tax due in Tennessee. The allowable tax credit would not include any accrued interest or penalties owed to another state because of back due taxes. The credit for taxes owed to another state must be taken in the year in which they accrue. A non-resident individual would be liable for the payment of this tax for any income the individual has received from other sources within this state. Bill also mandates employers to withhold 3% of an employee's wages paid at the same time and in the same manner as amounts are withheld for federal tax purposes. The bill also requires state income tax returns to be filed by April 15 of each year. Revenues generated under this bill would be earmarked for the General Fund. For the purposes of adoption, the bill would take effect upon becoming a law, for the purposes of employer registration and appropriation of funds, the bill would take effect July 1, 1999, and for all other purposes, the bill would take effect on January 1, 2000.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact - $223,343,750 FY00
Net Impact - $442,500,000 FY01

Increase State Expenditures - Dept. of Revenue
Exceeds $3,000,000 Recurring
Exceeds $2,000,000 One-Time

Decrease Local Govt. Revenues - $16,593,750 FY00
$34,500,000 FY01

Estimate assumes the following:

- Based on information provided by the Department of Revenue, the Comptroller's Office and 1996 federal data, taxable income of Tennessee residents would generate approximately $500,000,000.
- Reducing the Hall income tax from 6% to 3% would result in an estimated annual revenue loss of approximately $88,500,000 in FY00 and $92,000,000 in FY01.
- The net increase in state revenues for FY00 would be calculated as follows: [500,000,000/2]-[{(88,500,000/2). 6250}] = $223,343,750.
- The net increase in state revenues for FY01 would be calculated as follows: [500,000,000-(92,000,000*0.6250)] = $442,500,000.
- The increase in state expenditures is estimated to exceed $5,000,000 for implementation of a new tax structure.
- The decrease in local government revenues resulting from a decrease in the Hall income tax for FY00 would be calculated as follows: [(88,500,000/2).3750] = $16,593,750
- The decrease in local government revenues resulting from a decrease in the Hall income tax for FY01 would be calculated as follows: [92,000,000*. 3750)= $34,500,000.
- Hall income tax is apportioned 5/8ths to the state and 3/8ths to local governments.
- The impact for FY00 represents six months of collections.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James A. Davenport, Executive Director